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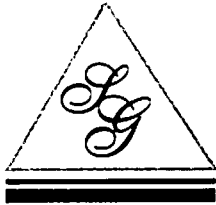
TOWNSHIP OF CALEDONIA  
ALCONA COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED MARCH 31, 2008

# I\_N\_D\_E\_X

## AUDITORS' REPORT

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August 29, 2008

Independent Auditors' Report

Members of the Township Board  
Township of Caledonia  
Alcona County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Caledonia, Alcona County, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements, as listed in the index. These financial statements are the responsibility of the Township of Caledonia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Caledonia, Alcona County, Michigan, as of March 31, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the Township of Caledonia has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of March 31, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2008, on our consideration of the Township of Caledonia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Stephenson, Gracik & Co., P.C.*

# CALEDONIA TOWNSHIP

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## ALCONA COUNTY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Township of Caledonia's (the Township) financial performance provides an overview of the Township's financial activities for the year ended March 31, 2008. The intent of this discussion and analysis is to look at the Township's financial performance as a whole. The discussion focuses on the Township's primary government. This analysis, a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34), omits certain comparative data that will be available in future years.

#### Financial Highlights

- The Township's assets exceeded its liabilities by \$1,312,073.
- The Township's total net assets increased by \$74,062.
- The Township's governmental funds reported a combined ending fund balance of \$1,248,914 this year, an increase of \$83,815. Of this amount, \$1,248,914 is available for spending (*unreserved fund balance*) on behalf of its citizens. The Township's General Fund 2008 year end *fund balance* is \$520,847.

#### Overview of the Financial Statements

The financial statements are organized so the reader can understand the Township as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The Township's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

#### Government-Wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the Township as a whole. These statements include the financial activities of the primary government except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Township that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services. The Township does not currently have any business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Township with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Township.

With this report, all capital assets are listed for the first time under GASB 34 for the Township of Caledonia. These assets are comprised of buildings and improvements, land improvements, machinery and equipment, vehicles and land owned by the Township. These assets total over \$181,000. Township management and staff performed an inventory and evaluation of assets over \$5,000 and categorized a depreciation schedule for assets not fully depreciated.

### **Fund Financial Statements**

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds: *Governmental and Fiduciary*.

#### ***Governmental Funds:***

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds:

- General Fund – This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state revenue.
- Road Fund – This fund accounts for the road operations of the Township. Revenues are derived primarily from a special voted tax for road improvements.
- Fire Fund – This fund accounts for fire protection of the Township. Revenues are derived primarily from a special voted tax for fire protection.

#### ***Fiduciary Funds:***

Fiduciary fund reporting focuses on net assets and changes in net assets. The Township's agency fund accounts for assets held by the Township for political subdivisions in which the Township acts as fiscal agent for taxes collected and distributed to other political subdivisions.

### **Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided on the Township *government-wide* and *fund* financial statements.

### **Government-Wide Financial Analysis**

Because this is the first year of implementation of Government Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.

#### **Summary of Net Assets:**

The following summarizes the net assets of the Township of Caledonia at March 31, 2008:

#### **Net Assets Summary**

| <b><u>Governmental<br/>Activities</u></b> |                            |
|---|----------------------------|
| Current Assets                            | \$ 1,248,914               |
| Capital Assets – net                      | <u>63,159</u>              |
| <b>Total Assets</b>                       | <b><u>1,312,073</u></b>    |
| Current Liabilities                       | <u>0</u>                   |
| <b>Net Assets</b>                         |                            |
| Invested in Capital Assets                | 63,159                     |
| Unrestricted                              | <u>1,248,914</u>           |
| <b>Total Net Assets</b>                   | <b><u>\$ 1,312,073</u></b> |

### Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for 2008. Since this is the first year the Township has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to 2007 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Generally speaking, the Township's net assets represent the difference between assets and liabilities.

|                                       | <u>Governmental<br/>Activities</u> |
|---------------------------------------|------------------------------------|
| <b>Revenues:</b>                      |                                    |
| <b>Program Revenues:</b>              |                                    |
| Charges for Services                  | \$ 42,072                          |
| Operating Grants and Contributions    | <u>5,904</u>                       |
| <b>Total Program Revenues</b>         | <u>47,976</u>                      |
| <br><b>General Revenues:</b>          |                                    |
| Property Taxes                        | 332,521                            |
| State Revenue Sharing                 | 82,767                             |
| Rent Income                           | 2,485                              |
| Investment Earnings and Miscellaneous | <u>45,540</u>                      |
| <b>Total General Revenues</b>         | <u>463,313</u>                     |
| <br><b>Total Revenues</b>             | <u>511,289</u>                     |
| <br><b>Program Expenses:</b>          |                                    |
| General Government                    | 120,025                            |
| Public Safety                         | 60,163                             |
| Public Works                          | 233,740                            |
| Community and Economic Development    | 17,670                             |
| Recreation and Cultural               | <u>5,629</u>                       |
| <b>Total Program Expenses</b>         | <u>437,227</u>                     |
| <br><b>Change in Net Assets</b>       | 74,062                             |
| <br><b>Beginning Net Assets</b>       | <u>1,238,011</u>                   |
| <br><b>Ending Net Assets</b>          | <u>\$ 1,312,073</u>                |

### Governmental Activities

With GASB 34 implementation, this new component of reporting reflects the *Statement of Activities* and illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$47,976 from *Charges for Services and Operating Grants and Contributions*. The *Charges for Services* are fees mainly associated with the collection of property taxes and licenses & permits. Operating expenses totaled \$437,227 for these same activities. The largest expenses were incurred by General Government offices (\$120,025) and Public Works (\$233,740).

### Financial Analysis of Township Funds

As noted earlier in this report, the Township uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

### Governmental Funds

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental

funds: 1) General fund – accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state revenue; 2) Road Fund – accounts for the receipt and expenditure of property taxes for road operations; and 3) Fire Fund - accounts for the receipt and expenditure of property taxes for fire protection.

This year's Township audit, following the GASB 34 format, shows 4 funds. The Township Clerk maintains these funds as separate units in the General Ledger.

### **Budgetary Highlights**

The Township's budgets are prepared according to Michigan Law. The most significant budgeted funds are the General Fund, Road Fund and Fire Fund.

#### **General Fund**

The General Fund actual revenue was \$209,449. That amount is above the original and final budget estimate of \$185,944. The General Fund actual expenditures were \$144,593, which is below the original and final budget estimate of \$198,289. The Township budgeted to improve the Township Hall with siding, but then decided not to proceed with this improvement.

#### **Road Fund**

The Road Fund actual revenue was \$179,347. That amount is above the original and final budget estimate of \$169,129. The actual expenditures were \$232,391 which are above the original and final budget estimate of \$227,005. The differences are due to the Township not taking into consideration year end accruals in their budget amounts.

#### **Fire Fund**

The Fire Fund actual revenue was \$122,493. That amount is above the original and final budget estimate of \$116,212. The actual expenditures were \$50,490, which are below the original and final budget estimate of \$60,250.

### **Capital Assets**

Of primary interest with this year's Township financial statements is the inclusion of "capital assets." The Township defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Capital Assets – Governmental Activities beginning and ending balance was \$181,606. Governmental Activities Total Capital Assets – Net of Depreciation was \$63,159.

### **Economic Factors**

The Caledonia Township Board and management staff is working diligently to keep expenditures down and to maintain revenue levels that are within their control. Property taxes and state revenue account for approximately 86% of the Township's General Fund revenues. In 2008-2009 the Township will collect more in property taxes due to new businesses and new construction. Revenue sharing from the State of Michigan is beyond the control of the Township.

The Board and staff will continue to monitor revenues and expenditures and take appropriate action to account for changes in economic factors.

### **Requests for Information**

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Township of Caledonia, Gillard Road, P.O. Box 81, Spruce, Michigan 48762.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

STATEMENT OF NET ASSETS  
March 31, 2008

|                                    | <u>Governmental<br/>Activities</u> |
|------------------------------------|------------------------------------|
| <u>Assets</u>                      |                                    |
| Cash and Cash Equivalents (Note 3) | \$ 384,020                         |
| Investments (Note 3)               | 506,663                            |
| Receivables:                       |                                    |
| Property Taxes                     | 27,827                             |
| Due from Fiduciary Funds (Note 4)  | 330,394                            |
| Prepaid Expenses                   | 10                                 |
| Noncurrent Assets:                 |                                    |
| Capital Assets, Net (Note 5)       | <u>63,159</u>                      |
| Total Assets                       | <u>1,312,073</u>                   |
| <u>Liabilities</u>                 | <u>0</u>                           |
| <u>Net Assets</u>                  |                                    |
| Invested in Capital Assets         | 63,159                             |
| Unrestricted                       | <u>1,248,914</u>                   |
| Total Net Assets                   | <u>\$ 1,312,073</u>                |

The accompanying notes to financial statements are an integral part of this statement.



TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended March 31, 2008

|                                       |                   | Program Revenues                |   | Net (Expense)<br>Revenue and<br>Changes in Net<br>Assets |
|---------------------------------------|-------------------|---------------------------------|---|--|
|                                       |                   |                                 |   | Primary<br>Government                                    |
| <u>Function/Program</u>               | <u>Expenses</u>   | <u>Charges for<br/>Services</u> | <u>Operating<br/>Grants and<br/>Contributions</u> | <u>Governmental<br/>Activities</u>                       |
| <u>Primary Government</u>             |                   |                                 |   |  |
| Governmental Activities:              |                   |                                 |   |  |
| General Government:                   |                   |                                 |   |  |
| Legislative and Executive             | \$ 25,357         | \$ 0                            | \$ 0  | \$ (25,357)  |
| Financial and Tax Administration      | 64,874            | 39,722                          | 0   | (25,152)   |
| Other General Government              | 29,794            | 0                               | 0   | (29,794)   |
| Public Safety:                        |                   |                                 |   |  |
| Fire                                  | 58,675            | 0                               | 0   | (58,675)   |
| Other Public Safety                   | 1,488             | 0                               | 1,647   | 159  |
| Public Works:                         |                   |                                 |   |  |
| Other Public Works                    | 233,740           | 0                               | 4,257   | (229,483)  |
| Community and Economic<br>Development | 17,670            | 2,350                           | 0   | (15,320)   |
| Recreation and Cultural               | <u>5,629</u>      | <u>0</u>                        | <u>0</u>  | <u>(5,629)</u>   |
| Total Governmental Activities         | <u>\$ 437,227</u> | <u>\$ 42,072</u>                | <u>\$ 5,904</u>                                   | <u>(389,251)</u>   |
| General Revenue:                      |                   |                                 |   |  |
| Property Taxes Levied For:            |                   |                                 |   |  |
| General Operating                     |                   |                                 |   | 55,370   |
| Fire Protection                       |                   |                                 |   | 111,582  |
| Roads                                 |                   |                                 |   | 165,569  |
| State Revenue Sharing                 |                   |                                 |   | 82,767   |
| Interest and Investment Earnings      |                   |                                 |   | 45,503   |
| Rent Income                           |                   |                                 |   | 2,485  |
| Other                                 |                   |                                 |   | 37   |
| Total General Revenue                 |                   |                                 |   | <u>463,313</u>   |
| Change in Net Assets                  |                   |                                 |   | 74,062   |
| Net Assets - Beginning                |                   |                                 |   | <u>1,238,011</u>   |
| Net Assets - Ending                   |                   |                                 |   | <u>\$ 1,312,073</u>                                      |

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

BALANCE SHEET  
GOVERNMENTAL FUNDS  
March 31, 2008

|                                    | <u>General Fund</u> | <u>Road Fund</u>  | <u>Fire Fund</u>  | <u>Total<br/>Governmental<br/>Funds</u> |
|------------------------------------|---------------------|-------------------|-------------------|---|
| <u>ASSETS</u>                      |                     |                   |                   |   |
| Cash and Cash Equivalents (Note 3) | \$ 212,621          | \$ 1,253          | \$ 170,146        | \$ 384,020                              |
| Investments (Note 3)               | 220,670             | 173,269           | 112,724           | 506,663                                 |
| Receivables:                       |                     |                   |                   |   |
| Property Taxes                     | 6,155               | 12,959            | 8,713             | 27,827                                  |
| Due from Other Funds (Note 4)      | 85,258              | 149,924           | 99,079            | 334,261                                 |
| Prepaid Expenses                   | <u>10</u>           | <u>0</u>          | <u>0</u>          | <u>10</u>                               |
| Total Assets                       | <u>\$ 524,714</u>   | <u>\$ 337,405</u> | <u>\$ 390,662</u> | <u>\$ 1,252,781</u>                     |
| <u>LIABILITIES AND FUND EQUITY</u> |                     |                   |                   |   |
| <u>Liabilities</u>                 |                     |                   |                   |   |
| Due to Other Funds (Note 4)        | <u>\$ 3,867</u>     | <u>\$ 0</u>       | <u>\$ 0</u>       | <u>\$ 3,867</u>                         |
| <u>Fund Equity</u>                 |                     |                   |                   |   |
| Fund Balances:                     |                     |                   |                   |   |
| Unreserved:                        |                     |                   |                   |   |
| Undesignated, Reported In:         |                     |                   |                   |   |
| General Fund                       | 520,847             | 0                 | 0                 | 520,847                                 |
| Special Revenue Funds              | <u>0</u>            | <u>337,405</u>    | <u>390,662</u>    | <u>728,067</u>                          |
| Total Fund Equity                  | <u>520,847</u>      | <u>337,405</u>    | <u>390,662</u>    | <u>1,248,914</u>                        |
| Total Liabilities and Fund Equity  | <u>\$ 524,714</u>   | <u>\$ 337,405</u> | <u>\$ 390,662</u> | <u>\$ 1,252,781</u>                     |

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
March 31, 2008

|                                  |    |           |
|----------------------------------|----|-----------|
| Total Governmental Fund Balances | \$ | 1,248,914 |
|----------------------------------|----|-----------|

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:

|                          |    |                  |               |
|--------------------------|----|------------------|---------------|
| Capital Asset Cost       | \$ | 181,606          |               |
| Accumulated Depreciation |    | <u>(118,447)</u> | <u>63,159</u> |

|  |    |                         |
|--|----|-------------------------|
| Total Net Assets - Governmental Activities | \$ | <u><u>1,312,073</u></u> |
|--|----|-------------------------|

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended March 31, 2008

|   | <u>General Fund</u> | <u>Road Fund</u>  | <u>Fire Fund</u>  | <u>Total<br/>Governmental<br/>Funds</u> |
|---|---------------------|-------------------|-------------------|---|
| <u>Revenue</u>                              |                     |                   |                   |   |
| Property Taxes                              | \$ 95,092           | \$ 165,569        | \$ 111,582        | \$ 372,243                              |
| State Revenue                               | 84,414              | 4,257             | 0                 | 88,671                                  |
| Licenses and Permits                        | 2,350               | 0                 | 0                 | 2,350                                   |
| Interest and Rentals                        | 27,556              | 9,521             | 10,911            | 47,988                                  |
| Other Revenue                               | 37                  | 0                 | 0                 | 37                                      |
| Total Revenue                               | <u>209,449</u>      | <u>179,347</u>    | <u>122,493</u>    | <u>511,289</u>                          |
| <u>Expenditures</u>                         |                     |                   |                   |   |
| Current:                                    |                     |                   |                   |   |
| General Government:                         |                     |                   |                   |   |
| Legislative                                 | 13,543              | 0                 | 0                 | 13,543                                  |
| Chief Executive                             | 10,468              | 0                 | 0                 | 10,468                                  |
| Financial and Tax Administration            | 61,530              | 0                 | 0                 | 61,530                                  |
| Other General Government                    | 19,540              | 0                 | 0                 | 19,540                                  |
| Public Safety                               | 1,470               | 0                 | 50,490            | 51,960                                  |
| Public Works                                | 1,349               | 232,391           | 0                 | 233,740                                 |
| Community and Economic Development          | 16,345              | 0                 | 0                 | 16,345                                  |
| Recreation and Cultural                     | 5,629               | 0                 | 0                 | 5,629                                   |
| Other                                       | 14,719              | 0                 | 0                 | 14,719                                  |
| Total Expenditures                          | <u>144,593</u>      | <u>232,391</u>    | <u>50,490</u>     | <u>427,474</u>                          |
| Excess of Revenue Over (Under) Expenditures | 64,856              | (53,044)          | 72,003            | 83,815                                  |
| Fund Balances - Beginning of Year           | <u>455,991</u>      | <u>390,449</u>    | <u>318,659</u>    | <u>1,165,099</u>                        |
| Fund Balances - End of Year                 | <u>\$ 520,847</u>   | <u>\$ 337,405</u> | <u>\$ 390,662</u> | <u>\$ 1,248,914</u>                     |

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended March 31, 2008

|  |                  |
|--|------------------|
| Total Net Change in Fund Balances - Governmental Funds   | \$ 83,815        |
| Amounts reported for governmental activities in the statement of activities are different because:   |                  |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. |                  |
| Current Year Depreciation Expense  | <u>(9,753)</u>   |
| Change in Net Assets of Governmental Activities  | <u>\$ 74,062</u> |

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUND  
March 31, 2008

|                                    | <u>Tax Account</u> |
|------------------------------------|--------------------|
| <u>ASSETS</u>                      |                    |
| Cash and Cash Equivalents (Note 3) | \$ 338,776         |
| Due from Local Units               | <u>5,788</u>       |
| Total Assets                       | <u>\$ 344,564</u>  |
| <u>LIABILITIES</u>                 |                    |
| Due to Other Funds (Note 4)        | \$ 330,394         |
| Due to Taxpayers                   | <u>14,170</u>      |
| Total Liabilities                  | <u>\$ 344,564</u>  |

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Caledonia (Township) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. Private-sector standards of accounting issued after November 30, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies:

A. Description of Township Operations and Fund Types

The Township of Caledonia operates under an elected Township Board (five members) and provides services to its residents in many areas, including road maintenance and fire protection. All activities over which the Township exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the Township are not misleading. The primary government of the Township consists of all funds, departments, boards, and agencies that are not legally separate from the Township.

Component units are legally separate organizations for which the Township is financially accountable. The Township is financially accountable for an organization if the Township appoints a voting majority of the organization's governing board and (1) the Township is able to significantly influence the programs of services performed or provided by the organization; or (2) the Township is legally entitled to or can otherwise access the organization's resources; the Township is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Township is obligated for the debt of the organization. Component units may also include organizations for which the Township approves the budget, the issuance of debt, or the levying of taxes. The Township does not have any component units.

C. Basis of Presentation

The Township's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Township that are governmental and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support. The Township does not currently have any business-type activities.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

The statement of net assets presents the financial condition of the governmental activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Township, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Township.

**Fund Financial Statements**

During the year, the Township segregates transactions related to certain Township functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type, and are excluded from the government-wide financial statements.

D. Fund Accounting

The Township uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Township functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds: governmental and fiduciary.

**Governmental Funds**

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds:

General Fund - This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state revenue.

Road Fund - This fund is used to account for the road operations of the Township. Revenues are derived primarily from a special voted tax for road improvements.

Fire Fund - This fund accounts for the fire protection of the Township. Revenues are derived primarily from a special voted tax for fire protection.

**Fiduciary Fund**

Fiduciary fund reporting focuses on net assets and changes in net assets. The Township's agency fund accounts for assets held by the Township for political subdivisions in which the Township acts as fiscal agent for others. The Township uses this fund to account for property tax collections.



TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus

**Government-Wide Financial Statements**

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the Township are included on the statement of net assets.

**Fund Financial Statements**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

F. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Revenues – Exchange and Non-exchange Transactions**

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Township, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the Township receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the period in which the sales are made. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Township must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: licenses and permits, state-levied locally shared taxes (including sales tax), interest and grants.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Basis of Accounting (Continued)

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

G. Cash and Cash Equivalents

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Township are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost which approximates fair value. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

H. Receivables

Receivables generally consist of accounts (fees), property taxes, special assessments, and interest. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The allowance for doubtful accounts at March 31, 2008 was \$0.

I. Interfund Receivables and Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "due from/to other funds". Interfund balances within governmental activities are eliminated on the government-wide statement of net assets. Balances due from/to fiduciary funds and component units are reported on the government-wide statement of net assets.

J. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

| <u>Descriptions</u>        | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Buildings and Improvements | 25 - 50 years          |
| Land Improvements          | 10 - 20 years          |
| Machinery and Equipment    | 5 - 10 years           |

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Township's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/ expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/ expenses to the funds that initially paid for them are not presented on the financial statements.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended March 31, 2008.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Budgets and Budgetary Accounting

The Township of Caledonia normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to March 1, the Township Clerk submits to the Township Board a proposed operating budget for the fiscal year commencing the following April 1. This operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the governmental center to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted through passage of an ordinance .
4. All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, and as amended by the Township Board throughout the operating year.

The Township adopts budgets for the General Fund and Special Revenue Funds.

The budgets of the Township are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the activity level.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Township Board.

P. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

Change in Accounting Principles

For 2008, the Township has implemented Governmental Accounting Standards Board (GASB) Statement Number 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" in their entirety as required by the Local Audit and Finance Division of the Treasury Department of the State of Michigan.

GASB Statement No. 34 creates new basic financial statements for reporting on the Township's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting. The government-wide financial statements split the Township's programs between governmental activities and business type activities. The Township does not currently have any business-type activities.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including the Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

|                           | <u>Governmental<br/>Activities</u> | <u>Fiduciary<br/>Funds</u> | <u>Total Primary<br/>Government</u> |
|---------------------------|------------------------------------|----------------------------|-------------------------------------|
| Cash and Cash Equivalents | \$ 384,020                         | \$ 338,776                 | \$ 722,796                          |
| Investments               | <u>506,663</u>                     | <u>0</u>                   | <u>506,663</u>                      |
| Total                     | <u>\$ 890,683</u>                  | <u>\$ 338,776</u>          | <u>\$ 1,229,459</u>                 |

The breakdown between deposits and investments is as follows:

|  | <u>Primary<br/>Government</u> |
|--|-------------------------------|
| Bank Deposits (Checking and Savings Accounts and<br>Certificates of Deposit) | \$ 891,876                    |
| Investments in Financial Institution Pooled Funds                            | <u>337,583</u>                |
| Total  | <u>\$ 1,229,459</u>           |

As of March 31, 2008, the Township had the following investments.

| <u>Investment Type</u>                  | <u>Fair<br/>Value</u> | <u>Specific Identification<br/>Maturities</u> |
|---|-----------------------|---|
| Primary Government:<br>Investment Pools | <u>\$ 337,583</u>     | Daily   |

Interest Rate Risk

In accordance with its investment policy, the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Township's known cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a local government unit in Michigan. The Township's investment pool is unrated.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2008, \$690,582 of the Township's bank balance of \$898,291 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk

The Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Township will minimize custodial credit risk, by; limiting investments to the types of securities approved in the Township's investment policy which is in accordance with State law.

Foreign Currency Risk

The Township's investment policy does not address foreign currency risk.

Investments

The Township Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Township to deposit and invest in the following:

- λ Accounts of federally insured banks, credit unions and savings and loan associations
- λ Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- λ United States government or federal agency obligation repurchase agreements
- λ Banker's acceptances of United States banks
- λ Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- λ Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Township's deposits and investments are in accordance with statutory authority.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of March 31, 2008 were as follows:

| <u>Fund</u>                    | <u>Interfund<br/>Receivable</u> | <u>Interfund<br/>Payable</u> |
|--------------------------------|---------------------------------|------------------------------|
| Major Governmental Funds:      |                                 |                              |
| General Fund                   | \$ 85,258                       | \$ 3,867                     |
| Road Fund                      | 149,924                         | 0                            |
| Fire Fund                      | <u>99,079</u>                   | <u>0</u>                     |
| Total Major Governmental Funds | 334,261                         | 3,867                        |
| Fiduciary Funds                | <u>0</u>                        | <u>330,394</u>               |
|                                | <u>\$ 334,261</u>               | <u>\$ 334,261</u>            |

The amounts of interfund receivables and payables for individual funds as of March 31, 2008 were as follows:

| <u>Fund</u>  | <u>Interfund<br/>Receivable</u> | <u>Fund</u>  | <u>Interfund<br/>Payable</u> |
|--------------|---------------------------------|--------------|------------------------------|
| General Fund | \$ 85,258                       | Tax Account  | \$ 85,258                    |
| Road Fund    | 146,057                         | Tax Account  | 146,057                      |
| Road Fund    | 3,867                           | General Fund | 3,867                        |
| Fire Fund    | <u>99,079</u>                   | Tax Account  | <u>99,079</u>                |
| Total        | <u>\$ 334,261</u>               | Total        | <u>\$ 334,261</u>            |

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the primary government for the fiscal year ended March 31, 2008, was as follows:

|                                       | Balance<br>04/01/07 | Additions         | Deletions   | Balance<br>03/31/08 |
|---------------------------------------|---------------------|-------------------|-------------|---------------------|
| <u>Governmental Activities</u>        |                     |                   |             |                     |
| Capital Assets Not Being Depreciated: |                     |                   |             |                     |
| Land                                  | \$ 21,060           | \$ 0              | \$ 0        | \$ 21,060           |
| Capital Assets Being Depreciated:     |                     |                   |             |                     |
| Land Improvements                     | 11,000              | 0                 | 0           | 11,000              |
| Buildings and Improvements            | 57,517              | 0                 | 0           | 57,517              |
| Machinery and Equipment               | 10,185              | 0                 | 0           | 10,185              |
| Vehicles                              | 81,844              | 0                 | 0           | 81,844              |
| Subtotal                              | <u>160,546</u>      | <u>0</u>          | <u>0</u>    | <u>160,546</u>      |
| Less Accumulated Depreciation for:    |                     |                   |             |                     |
| Land Improvements                     | (3,575)             | (550)             | 0           | (4,125)             |
| Buildings and Improvements            | (57,517)            | 0                 | 0           | (57,517)            |
| Machinery and Equipment               | (3,565)             | (1,018)           | 0           | (4,583)             |
| Vehicles                              | (44,037)            | (8,185)           | 0           | (52,222)            |
| Subtotal                              | <u>(108,694)</u>    | <u>(9,753)</u>    | <u>0</u>    | <u>(118,447)</u>    |
| Capital Assets Being Depreciated      | <u>51,852</u>       | <u>(9,753)</u>    | <u>0</u>    | <u>42,099</u>       |
| Governmental Activities Total         |                     |                   |             |                     |
| Capital Assets - Net of Depreciation  | <u>\$ 72,912</u>    | <u>\$ (9,753)</u> | <u>\$ 0</u> | <u>\$ 63,159</u>    |

Depreciation expense was charged to programs of the primary government as follows:

|                                |                 |
|--------------------------------|-----------------|
| <u>Governmental Activities</u> |                 |
| General Government:            |                 |
| Other General Government       | \$ 1,568        |
| Public Safety:                 |                 |
| Fire                           | <u>8,185</u>    |
| Total Governmental Activities  | <u>\$ 9,753</u> |

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real property and tangible personal property located in the Township. Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls. For the current year, the taxable value for properties located within the Township was \$112,292,755. The 2007 operating tax rates are currently .4752 mills for operations, 1.476 mills for roads and .9947 mills for fire protection.

NOTE 7 - OPERATING LEASE

The Township leases the east end unit of a building located at 1499 W. Hurbert Road, Hubbard Lake, Michigan, for public library use with Abbott Rentals under a standard leasing agreement. Monthly payments are \$270. Rental expense for the year ended March 31, 2008 was \$3,240.



TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 8 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on an activity basis. The approved budgets of the Township for these budgetary funds were adopted at the line item level.

During the year ended March 31, 2008, the Township incurred expenditures which were in excess of the amounts appropriated as follows:

| <u>Fund/Activity</u>                             | <u>Total<br/>Appropriations</u> | <u>Amount of<br/>Expenditures</u> | <u>Budget<br/>Variance</u> |
|--|---------------------------------|-----------------------------------|----------------------------|
| General Fund/Legislative                         | \$ 13,250                       | \$ 13,543                         | \$ 293                     |
| General Fund/Financial and Tax<br>Administration | \$ 56,777                       | \$ 61,530                         | \$ 4,753                   |
| Road Fund/Public Works                           | \$ 227,005                      | \$ 232,391                        | \$ 5,386                   |
| Fire Fund/Public Safety                          | \$ 50,250                       | \$ 50,490                         | \$ 240                     |

NOTE 9 - RETIREMENT PLAN

The Township has a non-standardized money purchase plan with Met Life Insurance Company effective April 1, 1991. All full-time employees are covered under the plan. Eligibility to become a participant is limited to those employees who, on the effective date or on any anniversary date, have attained age 18. Vesting is 100% upon entering the plan.

Each employee must contribute 7.5% of their gross earnings to the plan. The Township is required to contribute an amount equal to 7.5% of the employee's gross earnings.

During the year, the Township's required contributions amounted to \$5,946 which is 7.5% of its current year covered payroll. Employees' contributions also amounted to \$5,946.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

NOTE 10 - UNEMPLOYMENT COMPENSATION

The Township is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Township must reimburse the Employment Agency for all benefits charged against the Township. Accrued unemployment compensation was \$0 as of March 31, 2008.

NOTE 11 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries and natural disasters. The Township has purchased commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2008

NOTE 12 - SUBSEQUENT EVENTS

The Township was a co-defendent in a Tax Tribunal case for the tax years 1998 - 2007. On July 8, 2008 the case was settled and it was determined that the plaintiff was to receive a reduction in the taxable value of the property owned for the tax years 1998 - 2007 which resulted in a refund due of \$163,895. The Township's share of that refund settlement was \$14,170. This was determined to be material to the financial statements and therefore the liability and related tax reimbursement has been recorded as of March 31, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
For the Year Ended March 31, 2008

|   | Original<br>Budget | Final<br>Amended<br>Budget | Actual            | Variance -<br>Favorable<br>(Unfavorable) |
|---|--------------------|----------------------------|-------------------|--|
| <u>Revenue</u>                              |                    |                            |                   |  |
| Property Taxes                              | \$ 90,344          | \$ 90,344                  | \$ 95,092         | \$ 4,748                                 |
| State Revenue                               | 76,600             | 76,600                     | 84,414            | 7,814                                    |
| Licenses and Permits                        | 1,800              | 1,800                      | 2,350             | 550                                      |
| Charges for Services                        | 800                | 800                        | 0                 | (800)                                    |
| Interest and Rentals                        | 15,800             | 15,800                     | 27,556            | 11,756                                   |
| Other Revenue                               | 600                | 600                        | 37                | (563)                                    |
| Total Revenue                               | <u>185,944</u>     | <u>185,944</u>             | <u>209,449</u>    | <u>23,505</u>                            |
| <u>Expenditures</u>                         |                    |                            |                   |  |
| Current:                                    |                    |                            |                   |  |
| General Government:                         |                    |                            |                   |  |
| Legislative                                 | 13,250             | 13,250                     | 13,543            | (293)                                    |
| Chief Executive                             | 11,359             | 11,359                     | 10,468            | 891                                      |
| Financial and Tax Administration            | 56,777             | 56,777                     | 61,530            | (4,753)                                  |
| Other General Government                    | 26,079             | 26,079                     | 19,540            | 6,539                                    |
| Public Safety                               | 1,700              | 1,700                      | 1,470             | 230                                      |
| Public Works                                | 2,200              | 2,200                      | 1,349             | 851                                      |
| Community and Economic Development          | 21,234             | 21,234                     | 16,345            | 4,889                                    |
| Recreation and Cultural                     | 13,890             | 13,890                     | 5,629             | 8,261                                    |
| Other                                       | 16,800             | 16,800                     | 14,719            | 2,081                                    |
| Capital Outlay                              | 35,000             | 35,000                     | 0                 | 35,000                                   |
| Total Expenditures                          | <u>198,289</u>     | <u>198,289</u>             | <u>144,593</u>    | <u>53,696</u>                            |
| Excess of Revenue Over (Under) Expenditures | (12,345)           | (12,345)                   | 64,856            | 77,201                                   |
| Fund Balances - Beginning of Year           | <u>455,991</u>     | <u>455,991</u>             | <u>455,991</u>    | <u>0</u>                                 |
| Fund Balances - End of Year                 | <u>\$ 443,646</u>  | <u>\$ 443,646</u>          | <u>\$ 520,847</u> | <u>\$ 77,201</u>                         |

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

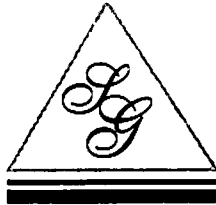
STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
ROAD FUND - SPECIAL REVENUE FUND  
For the Year Ended March 31, 2008

|   | Original<br>Budget | Final<br>Amended<br>Budget | Actual            | Variance -<br>Favorable<br>(Unfavorable) |
|---|--------------------|----------------------------|-------------------|--|
| <u>Revenue</u>                              |                    |                            |                   |  |
| Property Taxes                              | \$ 168,129         | \$ 168,129                 | \$ 165,569        | \$ (2,560)                               |
| State Revenue                               | 0                  | 0                          | 4,257             | 4,257                                    |
| Interest and Rentals                        | <u>1,000</u>       | <u>1,000</u>               | <u>9,521</u>      | <u>8,521</u>                             |
| Total Revenue                               | 169,129            | 169,129                    | 179,347           | 10,218                                   |
| <u>Expenditures</u>                         |                    |                            |                   |  |
| Current:                                    |                    |                            |                   |  |
| Public Works                                | <u>227,005</u>     | <u>227,005</u>             | <u>232,391</u>    | <u>(5,386)</u>                           |
| Excess of Revenue Over (Under) Expenditures | (57,876)           | (57,876)                   | (53,044)          | 4,832                                    |
| Fund Balances - Beginning of Year           | <u>390,449</u>     | <u>390,449</u>             | <u>390,449</u>    | <u>0</u>                                 |
| Fund Balances - End of Year                 | <u>\$ 332,573</u>  | <u>\$ 332,573</u>          | <u>\$ 337,405</u> | <u>\$ 4,832</u>                          |

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FIRE FUND - SPECIAL REVENUE FUND  
For the Year Ended March 31, 2008

|                                     | Original<br>Budget | Final<br>Amended<br>Budget | Actual            | Variance -<br>Favorable<br>(Unfavorable) |
|-------------------------------------|--------------------|----------------------------|-------------------|--|
| <u>Revenue</u>                      |                    |                            |                   |  |
| Property Taxes                      | \$ 111,212         | \$ 111,212                 | \$ 111,582        | \$ 370                                   |
| Interest and Rentals                | 5,000              | 5,000                      | 10,911            | 5,911                                    |
| Total Revenue                       | <u>116,212</u>     | <u>116,212</u>             | <u>122,493</u>    | <u>6,281</u>                             |
| <u>Expenditures</u>                 |                    |                            |                   |  |
| Current:                            |                    |                            |                   |  |
| Public Safety                       | 50,250             | 50,250                     | 50,490            | (240)                                    |
| Capital Outlay                      | 10,000             | 10,000                     | 0                 | 10,000                                   |
| Total Expenditures                  | <u>60,250</u>      | <u>60,250</u>              | <u>50,490</u>     | <u>9,760</u>                             |
| Excess of Revenue Over Expenditures | 55,962             | 55,962                     | 72,003            | 16,041                                   |
| Fund Balances - Beginning of Year   | <u>318,659</u>     | <u>318,659</u>             | <u>318,659</u>    | <u>0</u>                                 |
| Fund Balances - End of Year         | <u>\$ 374,621</u>  | <u>\$ 374,621</u>          | <u>\$ 390,662</u> | <u>\$ 16,041</u>                         |



*Stephenson, Gracik & Co., P.C.*

Certified Public Accountants & Consultants

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Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
Donald W. Brannan, CPA  
Kyle E. Troyer, CPA  
-----  
Herman A. Bertuleit, CPA

August 29, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Township Board  
Township of Caledonia  
Alcona County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Caledonia, Alcona County, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the Township of Caledonia's basic financial statements and have issued our report thereon dated August 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Caledonia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township of Caledonia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township of Caledonia's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township of Caledonia's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Township of Caledonia's financial statements that is more than inconsequential will not be prevented or detected by the Township of Caledonia's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Financial Statement Preparation

The Township of Caledonia prepares various financial information throughout the year to assess operations and the financial condition of the Township. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Township relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

Members of the Township Board  
Township of Caledonia  
August 29, 2008

The Township of Caledonia has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Township is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Township would not be in a position to detect the errors or omissions.

#### Township Board Reports

The Township Board was not provided with quarterly financial reports as required by the State of Michigan Accounting Manual. We recommend that the Township Clerk provide at least quarterly reports to the Township Board, for each fund, that include a balance sheet and profit and loss statements with a budget to actual presentation. These reports will be useful in controlling the budget as well as making other necessary financial decisions.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Township of Caledonia's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township of Caledonia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to management of the Township of Caledonia in a separate letter dated August 29, 2008.

View of Responsible Officials and Planned Corrective Actions:

#### Financial Statement Presentation

The Township has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Township to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

#### Township Board Reports

The Township Clerk will develop and present financial reports to the Township Board on at least a quarterly basis.

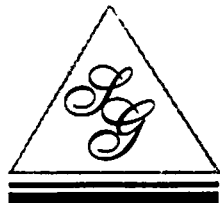
Township of Caledonia's responses to the findings identified in our audit are described above. We did not audit Township of Caledonia's responses and, accordingly, we express no opinions on them.



Members of the Township Board  
Township of Caledonia  
August 29, 2008

This report is intended solely for the information and use of management, the Members of the Township Board, and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grubb & Co., P.C.*



# *Stephenson, Gracik & Co., P.C.*

Certified Public Accountants & Consultants

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Herman A. Bertuleit, CPA

August 29, 2008

Members of the Township Board  
Township of Caledonia  
Alcona County, Michigan

Dear Board Members:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Caledonia for the year ended March 31, 2008, and have issued our report thereon dated August 29, 2008. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated March 06, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Township of Caledonia. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Township of Caledonia's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

## Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 08, 2008.

## Significant Audit Findings

### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Township of Caledonia are described in Note 1 to the financial statements. As described in Note 2, the Township of Caledonia has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of March 31, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

#### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The audit adjustments, which include material misstatements detected as a result of audit procedures, were provided to and corrected by management.

#### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated August 29, 2008.

#### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In planning and performing our audit of the financial statements of the Township of Caledonia for the year ended March 31, 2008, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. As a result of our consideration of the internal controls and tests of compliance as described in the third and fourth paragraphs, we offer the following recommendations for consideration.

Members of the Township Board  
Township of Caledonia  
August 29, 2008  
Page 3

#### Financial Statement Preparation

The Township of Caledonia prepares various financial information throughout the year to assess operations and the financial condition of the Township. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Township relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

The Township of Caledonia has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Township is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Township would not be in a position to detect the errors or omissions.

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#### Adoption of Budget

The Uniform Budgeting and Accounting Act requires that a local unit of government adopt the annual budget with the entities general appropriations act prior to commencement of the budget year. It was determined during our audit field work that the Township budget was not adopted until the April 2007 board meeting. We recommend that future budgets be adopted before the beginning of the fiscal year to be in compliance with State Statutes.

#### Bank Reconciliations

The State of Michigan Accounting Procedures Manual for Local Units of Government in Michigan requires the Township Treasurer to provide a copy of the monthly bank reconciliations to the Township Clerk for review. Based on our review of the financial reporting system, it was determined that the monthly bank reconciliations were not provided to or reviewed by the Township Clerk. We recommend that the Township Treasurer begin providing the Township Clerk with monthly copies of the bank reconciliations for review to be in compliance with the State Manual.

#### Budget Control

We noted that the Township's General Fund, Road Fund, and Fire Fund included expenditures in various activities that exceeded appropriated amounts. We recommend that the Township Board review and amend the budgets as needed for all funds periodically as needed and take into consideration recurring year end audit adjustments.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of Township of Caledonia.

This information is intended solely for the use of management, the Members of the Township Board, and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grailh & Co., P.C.*